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C O N F I D E N T I A L SECTION 01 OF 03 CHISINAU 000217

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TAGS: [PREL](#) [PGOV](#) [KDEM](#) [PINR](#) [MD](#)
SUBJECT: PRIME MINISTER INFORMED OF MCC THRESHOLD
AND COMPACT PROGRAMS STATUS

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Classified By: Ambassador Asif J. Chaudhry for
reasons 1.4(b) and (d)

11. (C) Summary: In a March 19 meeting with Prime Minister Zinaida Greceanii, Ambassador Chaudhry discussed the status of the Millennium Challenge Corporation's Compact and Threshold Country programs. The Ambassador outlined the impact that FY09 budget limitations would have on MCC and the timeline for implementing the Compact. The Ambassador noted that Moldova's performance would have a direct impact upon the amount allocated to the Compact and outlined the steps the GOM should take on the CCECC Civilian Monitoring Board, the road maintenance fund, and TIP to enhance its position and possibly increase funding for Moldova. The Ambassador also discussed the need for signing the MCC Threshold Country Program extension and the Prime Minister promised to do so. End Summary.

Ambassador Chaudhry Outlines Status of Compact Program

12. (C) The Ambassador informed the Prime Minister that the U.S. Congress had recently approved the FY09 budget for MCC, which had a direct impact on Moldova's Compact program. The MCC budget for FY09 was USD 875 million for all activities. After administrative expenses, MCC would have approximately USD 700 million available for two Compacts in 2009. Moldova and Senegal were the two countries eligible for Compact signings in this fiscal year. The MCC Board of Directors would consider both Compacts at approximately the same time. The Ambassador noted that the size of a country had a significant impact on the amount of a Compact since the MCC Board would evaluate how much MCC would spend per capita in a country. Since Senegal had a population of 12 million while Moldova had approximately four to five million people, it was likely that Senegal would receive a larger Compact. The Ambassador stated that the Compact for Moldova could be as much as USD 300 million, perhaps as much as USD 325 million, but a great deal depended on the GOM and its performance in the coming months.

13. (C) The Ambassador explained that MCC was conducting feasibility studies evaluating the Economic Rate of Return (ERR) for proposed activities in Moldova. If the feasibility studies

showed low justification for some part of the project, the requested funding might not even reach USD 300 million. However, expecting that the justifiable project would require more than the possible budget allocated to Moldova, a decision would have to be made jointly with the GOM as to which parts of the proposal to drop from implementation. The Ambassador further explained that the MCC Board of Directors would also consider the contributions made by Moldova and Senegal in awarding Compact funds and emphasized to the Prime Minister that Senegal had contributed USD 17 million of its own funds to support Compact development. He encouraged Moldova to evaluate and document its own contributions to Compact development.

14. (C) Ambassador Chaudhry said that the Compact might not fund all the roads originally included in the GOM's proposal. He said that he had asked MCC to work closely with the GOM in making the choices regarding which roads would take priority. The Ambassador noted that MCC is conducting the feasibility studies on all five roads as included in the original proposal. This would be the only means of making a fair assessment to correctly prioritize the projects. The Prime Minister reiterated this point to say that she would request MCC not exclude any of the roads from the feasibility studies and expressed the hope that the GOM could use the results of the feasibility studies to attract other investors for the projects as included in the MCC Compact.

Compact Timeline

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15. (C) The Ambassador reviewed the timeline for MCC actions on the Compact for the Prime Minister. The preliminary results of the feasibility studies should be available in May and the analysis should be completed by June. The MCC Investment Committee would meet in July and negotiations with the GOM on the Compact could take place in the first week of August. The MCC Board of Directors planned to meet around September 1 to consider approval of the Compact and the tentative date for the signing of the Compact would be mid-September.

Ambassador Outlined Steps for the GOM

16. (C) The Ambassador emphasized that the GOM could improve its position for Compact consideration by taking several steps. He said that the MCC was preparing a letter for the GOM, regarding the failure of the GOM to deliver on its commitment to establish an adequately independent Civilian Board for the Center for Combating Economic Crime and Corruption (CCECC). The letter from Washington would outline the concerns shared by MCC, USAID and the U.S. Embassy.

17. (C) MCC was very concerned about the failure of the GOM to meet its commitment to the international donors' community to fund maintenance of the roads to be rehabilitated under the Compact. The Prime Minister expressed some frustration with the World Bank because it had not, in her opinion, comprehended that the GOM had seriously addressed this issue. She said she would discuss this issue with the World Bank. The Prime Minister maintained that the GOM had increased taxes to support the road rehabilitation

fund on January 1, 2009. The Ambassador noted that he had received information that only 27 percent of the new revenue raised for road maintenance was going to the road rehabilitation fund, although the amount was supposed to be 80 percent. The Prime Minister reiterated that she would talk with the World Bank and stated that the Parliament had enacted legislation to ensure that the necessary revenue would be raised for the fund.

¶8. (C) The Ambassador noted that the USG continued to be concerned about Moldova's TIP status. The GOM had made progress and the USG recognized the GOM's efforts. It was important for the GOM to maintain momentum. Ambassador Chaudhry underscored that new U.S. legislation automatically downgraded countries listed on the Tier 2 Watch List two years in a row to Tier 3. A Tier 3 ranking would make Moldova ineligible for the Compact.

¶9. (C) The Ambassador reiterated that MCC was encouraging Compact countries to provide contributions to Compact development and advised the Prime Minister that Moldova should produce a detailed accounting of all the GOM's contributions to the Compact program such as staff, office space, motor pool, etc.

¶10. (C) Finally, the Ambassador noted that the misprocurement declarations by the World Bank and EBRD on another road project with the international donor community raised concerns. The Prime Minister stated that the GOM was working closely with the World Bank and EBRD to overcome the misprocurement incident and work was continuing on the road projects which had begun earlier with international donor support. As a result of the misprocurement incident, the Parliament had created a government commission on procurement in order to prevent a reoccurrence. This action was first and foremost in the interest of the GOM in order to prevent any new incidents, she noted.

Prime Minister Greceanii's Response

¶11. (C) Prime Minister Greceanii assured the

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Ambassador that the GOM would take action to improve Moldova's position for the Compact evaluation process. The Prime Minister expressed disappointment that MCC funds were limited but agreed that all the involved parties must make common decisions on what should be funded. She recognized that the GOM could not influence the size of MCC's budget, but it could influence its share of the Compact funds by taking steps to improve its performance in the areas outlined by the Ambassador. The Prime Minister noted that the feasibility studies would be valuable regardless of whether all the roads were funded by the Compact. The GOM could, for example, use the studies on unfunded roads to seek assistance from other donors. The Prime Minister noted that the signing in September would delay the beginning of construction until 2010, since road rehabilitation work could not be carried out in winter. This was unfortunate since the project would not be able to give a boost to the Moldovan economy during the current global economic crisis. The Prime Minister requested that the Ambassador look for ways to complete the evaluation process early and

start the projects this year to offset the effects of the economic crisis. The Prime Minister said that the GOM was taking action in all these areas and promised that she would instruct the government to share all information on the CCECC Civilian Board, TIP and the road rehabilitation maintenance fund with the Ambassador.

Threshold Country Program Extension

¶12. (C) The Ambassador noted that the MCC Threshold Country Program (TCP) ended on March 31, ¶2009. The Embassy had sent a letter to the Prime Minister on February 19 requesting an extension. The TCP implementers had not completed several components and funding was available to finish the programs. It would not look good, if the programs were not completed successfully, the Ambassador noted. The Prime Minister responded that she knew the issue well and was personally responsible for the delay in the signing of the extension. She had ordered a review of all the components of the TCP. Her staff had reviewed TCP and she was fully satisfied with the review. She assured the Ambassador that she would sign the extension later in the day.

Comment

¶13. (C) Prime Minister Greceanii listened carefully to the Ambassador's message in her typical professional demeanor and displayed a thorough command of the issues in her responses. She spoke frankly with the Ambassador on the issues that could potentially damage Moldova's standing in the MCC evaluation process for a Compact. We view her commitment to improving the GOM's performance on the issues discussed in the meeting as very sincere. She has been engaged in the Compact proposal from the very beginning and is personally committed to bringing it to a successful conclusion and always reassures us that the MCC Compact is a project close to her heart. The Prime Minister attentively noted the Ambassador's emphasis on the importance of Moldova's performance and the direct impact the GOM's actions would ultimately have on the size of its Compact. And as promised the Prime Minister did sign the TCP extension in less than an hour after meeting with the Ambassador.

CHAUDHRY